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MARKET COMMENTARY

Low Valuation and Smaller Caps: A Timely Opportunity

APPROACH

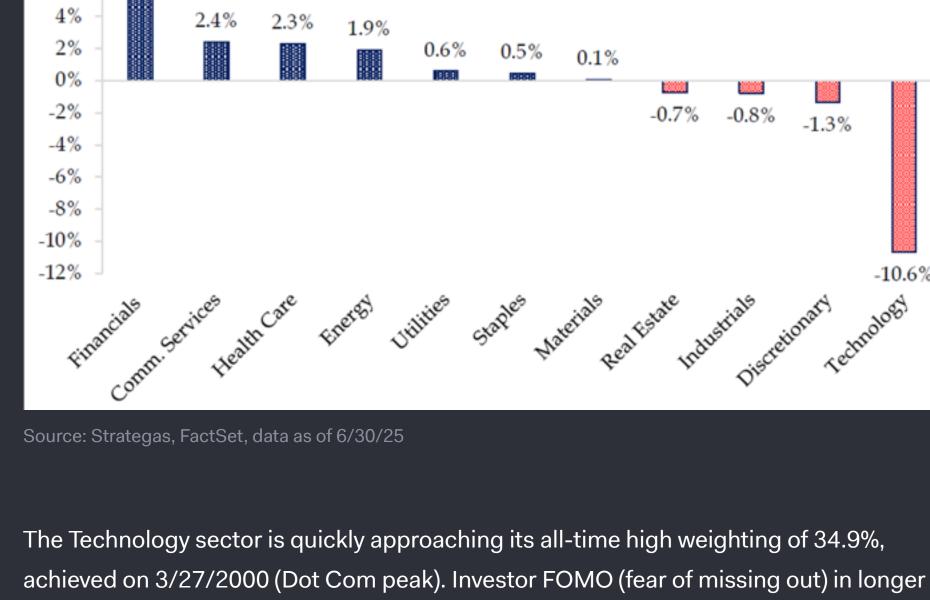
BY: DAN LYSIK, CFA OCTOBER 15, 2025

The market recovery that began in early April continued throughout the third quarter. While growth and momentum stocks remained strong, generating double-digit returns, the marketplace began to broaden out. Small and micro-cap value stocks posted their strongest quarterly returns since Q4 2023. After a four-year pause, small caps resumed their upward momentum, finally reaching a new high and breaking the price level peak of 2021. We believe we are still in the early innings of a multi-year outperformance cycle for low valuation equities and smaller market caps.

portion of which are Technology and AI-related companies. While it is always hard to know the exact peak in optimism, having invested through the late 1990s and early 2000s time-period we are seeing similar excessive exuberance building in that portion of the market. Crowded ownership in technology companies has led to significant ownership overlaps across investment classifications along with market valuation expansion. But, the chart below is telling about the sector's contribution. At quarter end, the S&P 500 Technology sector weighting increased to 34.8% of the S&P 500 Index more than 1,000 bps above the sector's earnings contribution!

Market participants have been enamored with the longest duration equities, a sizable

S&P 500 Sector Contribution to Index Earnings Minus Contribution to Market Cap -2% -6% -8% -10% -12%



duration equities is taking precedence over valuation and prudent margin of safety. However, history reminds us how marketplace views can move from excessive optimism

P/S of IT Firms in the S&P500

Fwd P/E (FY 2)

P/B

P/S

P/CF

EV/EBITDA

Technology Weighting

Source: S&P Tear Sheets 9/30/2025 and Bloomberg

and attractive asymmetric return potential!

S&P 1500

Pure Value

11.5x

Multiples

Fwd P/E (FY 2)

15.0%

10.0%

0.0%

-5.0%

-10.0%

(Net of Fees)

S&P 600 Value Index

sheet and liquidity.

reference the GIPS Disclosure at the end of this document.

Discount to

S&P 500

48%

to pessimism in short order. We saw a brief example of this during 2022 when longer duration equities saw a significant pullback. The Dot com bubble in technology stocks in the late 1990s was followed by a greater price correction from 2000 to 2002. From the highs in early 2000, the S&P 500 Technology sector weighting fell from 34.9% to 14.3% by the end of 2002 (only 21 months later). While it is possible for Mr. Market to continue to push longer duration and technology share prices higher in the near term, we are reaching the higher end of historical levels. The Technology sector forward price-to-earnings multiple is above 30x, significantly higher than the 20-year historical average of 18.3x. Higher share prices will eventually become more vulnerable to any disappointment with elevated future market

expectations. Given the Technology sector is near historically peak margins, it is important to also highlight the sector's price to sales multiple. As the chart below highlights, it is well above the 2000 peak of 7x, approaching 10x revenue, with the Magnificent 7 approaching 13x! Long duration equities combined weighting in the S&P 500 is also at an all-time high – nearly 35% of the index weighting has a price-to-sales above 10x.

Magnificent 7:



26.0x

9.3x

5.8x

29.0x

23.2x

40.7%

22.0x

5.5x

3.5x

23.8x

17.8x

34.8%

17.7x

3.2x

2.0x

17.4x

13.4x

24.2%

Discount to

S&P 500

74%

MDVS

5.8x

Discount to

S&P 500

41%

well below 10-year treasury bond yield! However, as you move towards the lowest valuation equities and lower market cap Indexes you will notice the Technology representation falls with these more diversified Indexes (top 10 weight between 10.7% and 11.7%). Valuation measures of these subsets of the market are at a significant discount to the

S&P 500 Index. There are very wide valuation spreads between low valuation and longer

extremely attractive valued equities still in the marketplace with low market expectations

Discount to

S&P 500

37%

S&P 600 V

12.9x

duration/technology equities today. We also highlight Deep Value Select strategy's

valuation multiples at greater than a 70% discount to the S&P 500 Index. There are

S&P 400 V

13.8x

It is surprising to see that Apple and Microsoft are now the two largest holdings in the

S&P 1500 Value Index. Both companies are above 30x earnings, with an earnings yield

P/B 80% 1.4x 75% 0.8x 85% 1.1x 1.8x 67% P/S .4x 89% 1.0x 71% 0.8x 77% 0.2x 94% P/CF 57% 8.0x 66% 9.5x 60% 10.3x 1.5x 94% EV/EBITDA 13.6x 24% 71% 10.9x 39% 10.5x 41% 5.2x 13.4% 8.1% Technology Weighting 6.9% 8.1% Source: S&P Tear Sheets 9/30/2025 and Bloomberg During the 2020 Covid outbreak, growth and momentum stocks were the early leaders in the market recovery. Technology companies saw a boost in revenue growth from incremental demand and surge in technology sector capital spending. As time went on,

smaller companies and low valuation securities took over market leadership, due to

The small cap sector is emerging from a multi-year earnings recession. Future interest

rate cuts, ongoing deregulation and expected \$150M of incremental tax savings in early

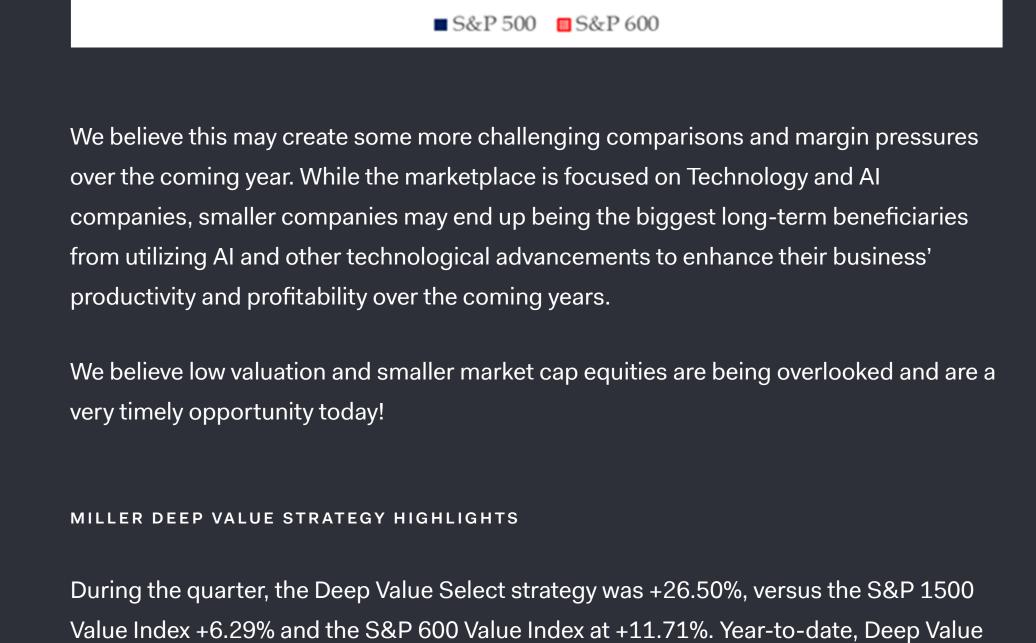
profitability. During 2026, small cap earnings growth is expected to be ahead of larger

accelerating earnings growth and narrowing wide valuation spreads. We see the

spring from the recent tax bill provides additional tailwinds to smaller company

possibility of a similar environment playing out over the coming year.

companies. Year-to-date, larger companies' earnings have seen benefits from incremental inventory build as companies looked to get ahead of higher tariffs. S&P 500 vs. S&P 600 Quarterly Y/Y EPS Growth (Source: Bloomberg) 35.0% 30.0% 25.0% 20.0%



significant embedded value in our holdings as their current valuation is a large discount versus industry peers and private market transactions. Annualized Performance (%) As of 9/30/2025 Since Inception 10/1/18 Miller Deep Value Strategy 26.22% 27.90% 21.90% 26.44% 9.20% 13.12%

Past Performance is no guarantee of future returns. The Miller Deep Value Select strategy incepted 10/1/2018. Performance periods greater than one year are annualized. 1. The "gross" of fees performance figures reflect the day-weighted performance of assets (including cash reserves)

managed for the period and do not reflect the deduction of our investment management fees or performance fees but do reflect the deduction of trading commissions and withholding taxes. Throughout this document, the "net" of fees performance figures reflect the deduction of trading commissions; withholding taxes; the reinvestment of dividends, interest and other cash flows; a model performance fee; and a model investment management fee equal to the maximums under our fee schedule for Deep Value Select separate accounts. The following is our fee schedule for new Deep Value Select strategy separate accounts (as reflected above): the model performance fee is 20% of the account's performance, after the investment management fee has been deducted, above a 6% hurdle rate; the model investment management fee is 1.00% on all assets under management. These model fees have been deducted from the gross returns on a monthly pro-rated basis to arrive at the net of fee performance shown above. Historical separate account investors may have paid lower fees than the model fees used to calculate "net" of fees performance here. The model performance fee is calculated and accrued on a monthly basis and paid out annually. For important additional information, please

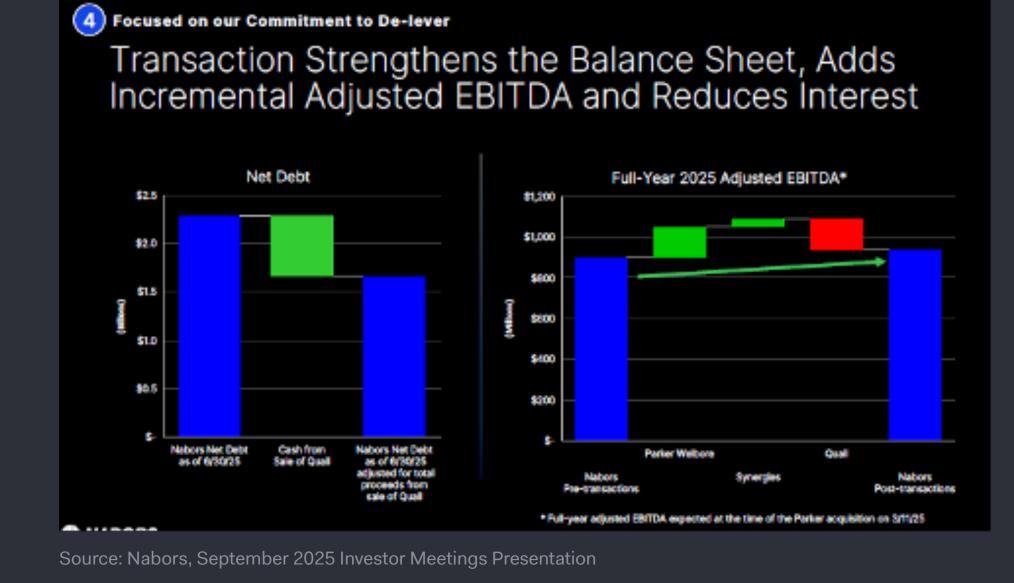
Select Strategy net returns are +9.20%, slightly behind the S&P 1500 Value Index at

during the quarter was a tailwind for strategy performance. We continue to see

+9.28% and ahead of the S&P 600 Value Index at +3.17%. The broadening of the market

During the quarter, ten of our twelve holdings delivered positive double-digit returns. The largest positive contributor was Nabors Industries (NBR), whose market share price was up 46%. Nabors Industries has undertaken a multi-year transformation focused on leveraging their industry's leading technology. The company has over 450 patents, and has developed industry leading drilling automation/robotics, Rig Cloud platform and smart apps, rolling out globally, not only on Nabors rigs but also on third party rigs. During the quarter, Nabors sold their Quail Tools business segment for \$600M. Sale

proceeds will be used to accelerate debt reduction, enhancing the company balance



expectations for additional rig cancellations. While oil prices falling towards \$50/barrel is a potential risk, we believe this marketplace fear is well known and significantly discounted in Nabors current share price today. We believe Nabors long-term normalized EBITDA could be closer to \$1.5B, and the company has debt reduction potential of \$1B+ over the next five years. Nabors long-term upside potential is multiples of the current share price with the shares currently trading at greater than 50%

Our only negative holding during the quarter was Bread Financial (BFH), with a market

cards and deposits along with digitally enabled private-label, co-branded credit cards,

installment loans and buy now, pay later ("BNPL"). New management has completed a

multi-year transformation to streamline its business model, enhance their underwriting

experienced and capable CFO joined couple years ago and has further enhanced the

in early 2020, capital ratios have improved by more than 3x, debt reduced by \$2B and

Bread management enhanced their underwriting over the past couple of years and

balance sheet and transformation plan. Since, the beginning of the transformation plan

increased direct to consumer deposits by more than \$6B. Marketplace recent concerns

on weaker industry credit card data appear over discounted in the current share price, as

process, develop differentiated products, and expand brand partnerships. An

share price down 2%. The company provides proprietary direct-to-consumer credit

outbreak. Current marketplace fears appear due to falling commodity prices, and

Management achieving 2025 guidance and ongoing debt reduction would lead to

significant discount to Nabors 15-year average of 5.9x.

normalized free cash flow yield.

Enterprise Value to EBITDA (forward 1-year) approaching 2.5x, an all-time low and a

Nabors share price looks extremely attractive, at less than one times forward cash flow -

the only other period it has traded at a lower ratio was a brief time during the Covid 2020

increased their credit reserves to 13%. With company delinquency rates at half of reserve levels we see the potential for the company to see a significant reserve release over the next couple of years. Management looks well positioned to transition to their long-term financial targets, which would support normalized ROTCE in the Mid-20% and normalized earnings above \$15 per share. BFH shares remain attractive in our view, trading at more than 25% normalized earnings yield.

Source: Bread Financial, Investor Presentation July 2024 Deep Value Select recently reached its 7th anniversary, generating close to 22% annual returns since inception. The strategy has significantly outperformed the overall market even with weaker small cap market returns. Historical holdings have generated nearly 80% of our performance since 2018, as we have recycled capital from mostly successful historical investments into new investments or increased holdings that have lagged the strategy's historical returns. Our holdings have sizable revenue (>\$3B) and asset bases and a temporary small/micro-cap market cap. Our concentrated turnaround/transformation situations all show multiple long-term value drivers (margin improvement, returning to normalized earnings/free cash flow, non-core asset monetization, capital allocation and/or valuation expansion potential) to unlock significant equity value overtime. Any improvement in small cap returns has the potential to provide incremental tail wind to strategy long-term returns. We thank our clients for their long-term partnership and remain excited about our

shareholders by average monthly tangible common shareholders' equity and is often used to assess a company's performance. Earnings Yield is a valuation metric that refers to the earnings per share for the most recent 12month period divided by the current price per share. Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock and serves as an indicator of a company's

widely held common stocks.

View Deep Value Select GIPS Disclosure

time and is subject to change without notice.

returns do not reflect any fees, expenses, or sales charges.

please contact us.

potential to deliver attractive long-term returns.

profitability. Free cash flow yield is an overall return evaluation ratio of a stock, which standardizes the free cash flow per share a company is expected to earn against its market price per share. The ratio is calculated by taking the free cash flow per share divided by the share price. **EBITDA** is earnings before interest, taxes, depreciation and amortization and is a calculation of a company's financial health. Enterprise Value to Earnings Before Income, Taxes, Depreciation, and Amortization (EV/EBITDA) is the enterprise multiple and is used to

References to specific securities are for illustrative purposes only. Portfolio composition is shown as of a point in

Contributors and Detractors mentioned above are those holdings that had the greatest effect on the Strategy's

composite performance for the quarter. For information on how Contributor/Detractor data are calculated and

their effect on composite performance, contact us. For more information about Miller Value management fees,

Past performance cannot predict future results. It is not possible to invest directly in an index. Unmanaged index

Free cash flow is earnings before depreciation, amortization, and non-cash charges minus maintenance capital

expenditures. Return on tangible Common Equity is computed by dividing net earnings applicable to common

determine the value of a company. The **S&P 1500 Pure Value Index** draws constituents from the S&P 1500 Index. Value is measured on three factors: the ratios of book value, earnings, and sales to price. S&P Pure Value Indices include only those components of the parent index that exhibit strong value characteristics, and weights them by value score. The S&P MidCap 400® Value measures constituents from the S&P MidCap 400 that are classified as value stocks based on three factors: the ratios of book value, earnings and sales to price. The **S&P 600** SmallCap Value Index tracks the value stocks in the S&P 600 SmallCap Index, identified by three factors: book value, earnings and sales to price. An investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges. Price to earnings is the market price per share divided by earnings per share. The **Mag 7** or Magnificent 7 are a group of companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla. Price to sales ratio is a tool for calculating a stock's valuation relative to other companies. It is calculated by dividing a stock's current price by its revenue per share. Basis point is one hundredth of one percent. The S&P 500 Index is a market capitalization-weighted index of 500

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Before



DEEP VALUE STRATEGY

Breaking Down the Market: High

Expectations, Passive Risks, and

Value Resurgence



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